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May 12, 2009

## AGENDA ITEM 4a

### TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Assembly Bill 65 (Hayashi) – As Introduced  
Retired Public Employees' Vision Care Program  
*Sponsor: Retired Public Employees' Association (RPEA)*
- II. **PROGRAM:** Legislation
- III. **RECOMMENDATION:** Support, if Amended  
AB 65 should be amended to allow the Board to borrow from the Contingency Reserve Fund (CRF) to cover start-up costs and make other technical amendments.

### IV. ANALYSIS:

Assembly Bill 65 would create the Retired Public Employees' Vision Care Program (Program) that provides voluntary vision care benefits to retired annuitants of contracting public agencies, school districts, and the University of California, and their eligible family members when those entities provide retirement benefits to their annuitants through the Public Employees' Retirement System. CalPERS' Board would administer the program which would be funded entirely by annuitants' premiums and must be implemented no later than January 1, 2011.

#### **Background**

CalPERS does not administer a vision care benefit for its members; however, the health plans providing services through CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) provide varying levels of vision care services. These are usually linked to health-related episodes and are only available to state and public agency and school members whose agencies contract with CalPERS for health care and who then enroll in those health care offerings.

The vision care benefit provided by CalPERS' contracting Health Maintenance Organizations (HMOs) is available to all state and public agency employees, retirees, and their dependents. The HMO plans offer routine eye examinations and basic care, but do not include eyeglasses (lens and frames) and contact lens coverage, unless the eyeglasses are prescribed following cataract surgery.

CalPERS' self-funded Preferred Provider Organization (PPO) basic plans only cover visits and consultations by an ophthalmologist for an active illness, eye exams following cataract surgery, or accidental injury. However, CalPERS self-funded PPO PERS Choice and PERSCare Medicare-Supplement plans provide for routine vision exams and lenses annually, and one set of frames per member per 24-month period.

As of February 2009, CalPERS retirement rolls included approximately 333,225 public agency and school retirees from the approximately 1,024 contracting agencies and 120 school districts. If the contracting agency or school district also contracts for CalPERS health benefits, then limited vision care would be available to the retiree and their dependents through those health plans, as outlined above.

#### *Vision Care Benefit Coverage for State Employees and Annuitants*

The Department of Personnel Administration administers the State Vision Program for active state employees and the Vision Care Program for State Annuitants. Both programs are offered through the Vision Service Plan (VSP), a private, third-party vendor of vision care services. Enrollment is automatic for active employees and optional for retirees.

The Vision Care Program for State Annuitants is a voluntary program funded by participating annuitants. Coverage costs approximately \$9 per month for a member, \$17 per month for a member plus one, and \$18 per month for a family. Out of roughly 105,000 eligible retirees, more than 51,000 have enrolled in the program. Presently, one full-time DPA analyst oversees the program.

#### *Vision Care Benefit Coverage for California State University (CSU) Employees and Annuitants*

The CSU administers the California State University Employee Vision Care Program for active CSU employees and the California State University Annuitant Vision Care Program for CSU retirees. Both programs are offered through the Vision Service Plan (VSP), a private, third-party vendor of vision care services. Enrollment is mandatory for active employees, qualified members, and dependents; however, the Vision Care Program for State Annuitants is a voluntary program funded by participating annuitants.

Retired participants currently pay approximately \$9 per month for a member, \$16 per month for a member plus one, and \$18 per month for a family. Of 25,000 eligible retirees, 4,200 have enrolled. VSP expects the enrollment percentage to increase over the next three open enrollment periods as it did for the state annuitant vision care program (35 percent of retirees in the initial open enrollment, 40 percent in the second, and 50 percent in the third).

Due to budget constraints, the CSU was unable to add staff to administer the program. Instead, they pay an administrative load fee to VSP and distribute the increased workload to current CSU staff.

### **Proposed Changes**

1. Creates the Retired Public Employees' Vision Care Program to provide voluntary vision care benefits to retired annuitants of contracting public agencies, school districts, and the University of California, and their eligible family members when those entities provide retirement benefits to their annuitants through the Public Employees' Retirement System.
2. Designates CalPERS' Board of Administration as the administrator of the program, but allows the Board to contract with a third-party administrator.
3. Defines terms and eligibility requirements consistent with PEMHCA.
4. States that the Board is not required to locate or to notify eligible members of the program.
5. Requires Board in conjunction with the contracted vision plan or plans to determine the premium rate for the program.
6. Requires that the program be entirely funded by annuitant's premiums.
7. Requires that premiums be deducted from the annuitant's monthly allowance and, if that allowance is insufficient to cover the premium, requires annuitants to pay the balance directly to the vision services plan.
8. Creates the Retired Public Employees' Vision Care Program Fund in the State Treasury.
9. Requires that the program be implemented no later than January 1, 2011.

### **Legislative History**

- 2008      AB 1997 (Hayashi) – Would have created the Retired Public Employees' Vision Care Program to provide voluntary vision care benefits to retired annuitants of contracting public agencies, school districts, and the University of California. The Governor vetoed this bill because of the delay in passing the 2008-2009 budget. *CalPERS Position: Support*

- 2007 Chapter 331, Statutes of 2007 (AB 1288, Hayashi) – Established the County Retirement System Vision Care Program to provide vision care benefits to retirees, and their dependents, of counties that operate under the County Employees' Retirement Law of 1937 (the '37 Act) and that elect to offer the program. *CalPERS Position: No Position*
- 2007 Chapter 344, Statutes of 2007 (SB 235, Negrete McLeod) – Allowed annuitants of the California State University (CSU) system to participate in the newly created California State University Annuitant Vision Care Program. This bill requires the Office of the Chancellor of the CSU to administer the program for all participating annuitants of the institution. *CalPERS Position: Support.*
- 2006 Chapter 611 (AB 2242, Assembly PER&SS) – Established the DPA-administered Vision Care Program for State Annuitants which would be funded by participants of the program. *CalPERS Position: Support*

## **Issues**

### **1. Arguments by Those in Support**

According to the sponsor, "Vision care is an important, yet under appreciated preventive health care service. In 2006, the National Institute of Health estimated that over 11 million Americans had an uncorrected visual impairment. Vision loss is often accepted as a normal part of aging, but regular eye exams and conscious vision care can make a difference - not just in how well people can see, but in our overall health and quality of life. Regular eye exams can detect diseases, such as diabetes and hypertension, that otherwise go undiagnosed and untreated. As Californians live longer lives, maintaining good vision is an important part of staying active and independent."

*Organizations in Support: Retired Public Employees' Association (Sponsor); American Federation of State, County and Municipal Employees; California Alliance for Retired Americans; California Professional Firefighters.*

### **2. Arguments by Those in Opposition**

There is no known opposition at this time.

### **3. Benefit Improvement for Public Agency, Schools and University Annuitants**

Currently, public agency and school annuitants are only able to receive vision care coverage through individual benefit negotiations with individual employers. If the member is enrolled in the CalPERS health program, they may receive some limited vision benefits through their HMO or PPO plan.

The HMO plans only offer routine eye examinations and basic care, and do not include eyeglasses (lens and frames) and contact lens coverage unless the eyeglasses are prescribed following cataract surgery. Only the self-funded PPO plans offer vision care benefits to annuitants that include eye examinations, eyeglass coverage, and contact lens coverage.

Independent vision care plans offer basic eye examination coverage and primary eye care coverage. This coverage includes a more comprehensive eye examination that allows doctors to detect eye conditions, such as cataracts, as well as other health conditions (i.e. glaucoma and hypertension). This procedure is an important part of disease management. These plans also offer eyeglass and contact lens coverage with a co-payment.

#### 4. Lack of Comparable Program Experience

There is no comparable program operating within CalPERS to evaluate the soundness of the proposed benefit plan. The Long-Term Care program, a CalPERS-owned insurance plan managed by a third-party administrator, is similar to the Vision Care Program design. However, the Long-Term Care insurance (critical incident on-going care) is very different from on-going vision care and support. Furthermore, the Long-Term Care program's vendor absorbed a significant portion of the startup costs which were later reimbursed.

The DPA- and CSU-administered annuitant vision care programs are contractual extensions of the existing active employee vision plans, and were established under circumstances different from the proposed Retired Public Employees' Vision Care Program. Because both programs are still in their infancy, no data is available on the financial sustainability of either program or the impact a larger pool would have on rates.

#### 5. Need for CalPERS Sponsorship

In essence AB 65 would create a vision care program for all other CalPERS annuitants and eligible family members who are not eligible to enroll in the state or the CSU sponsored vision care program. Like these two programs, the Retired Public Employees' Vision Care Program would allow an individual with sufficient balance in his or her retirement warrant to establish a direct authorization to pay the vendor premium for this service. To accomplish a direct authorization, an individual must be associated with a sponsored group. (If the balance of the warrant is not sufficient to cover premiums, the member will be able to directly pay the vision plan premium.)

In the case of state and CSU annuitants, those employers of record act as the sponsors for their group program. Since all other annuitants could come from one of over 2,400 public agencies contracting with CalPERS for retirement, it

is not possible to use the employer of record as the sponsor. To meet this sponsorship need, CalPERS would have to take on the role of benefit sponsor to effect the appropriate direct authorizations from the retirement fund.

6. Need to Create / Implement a New Program

The recently adopted state and CSU retiree vision care programs are extensions of existing programs. This provided significant savings in startup costs because the vision care vendor simply transitioned existing administrative materials and support activities to expand the coverage population. Since there is no comparable CalPERS program which can be expanded, a new program must be created.

7. Costs / Funding Issues

AB 65 would establish the Retired Public Employees' Vision Care Program Fund to be administered by the CalPERS' Board of Administration. Although the Board is granted full administrative authority over the program, no funds for start-up costs are provided. CalPERS will incur significant costs to implement this program, and will require "seed" money to initiate it. Once the program has been developed and enrollment begins, administrative fees may be charged, generating a revenue stream to support the program.

In order to initiate and implement the program staff recommends an amendment that would allow the Board to borrow monies from the Public Employees' Contingency Reserve Fund (CRF) for start up costs.

8. CalPERS System Support Capability

CalPERS is in the midst of key data system design and reengineering efforts. As a result, changes to key systems and operating interfaces would be impossible to accomplish prior to FY 2010. To reduce the possibility of adverse impacts on the Pension System Resumption (PSR) implementation, it is critical that CalPERS keep changes to the existing systems to a minimum.

9. Legislative Policy Standards

The Board's Legislative Policy Standards indicate a "support" position for proposals that "provide benefit improvements for excluded employees and retirees that recognize the unique needs of these groups." AB 65 would improve retiree benefits by providing a voluntary vision benefit to public agency and school retirees equal to that of state and CSU annuitants. However, the bill does not provide a funding mechanism for start-up costs; therefore, staff recommends the board adopt a support, if amended position.

This bill should be amended to allow the Board to borrow monies from the Public Employees' Contingency Reserve Fund for start-up costs and to make other technical amendments.

**V. STRATEGIC PLAN:**

This is not a product of the CalPERS' strategic plan, but an ongoing responsibility of the CalPERS' Office of Governmental Affairs.

**VI. RESULTS/COSTS:**

This bill would allow annuitants (as defined under the CalPERS Health Benefits Program) of public agencies, school districts, and universities contracting with CalPERS for retirement benefits to participate in the Retired Public Employees' Vision Care Program.

**Program Costs**

The Retired Public Employees' Vision Care Program would be self-funded through administrative fees assessed on the premium. While actual rates are to be negotiated based on demographics, utilization and plan design (benefit structure), for comparison, under the State Vision Care Program, the current premiums for State Annuitants is \$8.78 per month for a single member, \$17.12 per month for a member and his/her spouse, and \$18.43 for a family of three or more.

**Administrative Costs**

To create the administrative benefit program envisioned in this bill will require significant initial effort to ensure that all members' needs are met. CalPERS recognizes the need to design and field long standing value-added member benefit programs which do not require significant modification after implementation.

Although the program costs are expected to be borne by administrative fees charged for the service, CalPERS will incur significant costs to implement and continuously administer this program. (This differs from the state retiree program and the CSU effort as they are extensions of existing programs. This bill proposes to create a new, independent benefit process with new contract affiliations and support requirements.) This requires CalPERS to obtain "seed" money or advance funding to initiate the program.

It is difficult to scope the impact of such a support program, and costs cannot be fully realized until the program and system are designed. However, with limited knowledge of the program needs, it is estimated that startup costs (System requirements / design / implementation) could range from \$325,000 to \$500,000.

Once the program is up and running, it is anticipated that there will be a need for four staff positions to administer, maintain, and audit the system side of the program with an ongoing personnel cost of \$280,000. Direct contact with members and liaison to the vision vendor would add to this cost. These estimates include direct program administrative costs only and do not address any potential costs related to customer service responsibilities.

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